Price and volume measures of FISIM

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Outline of Presentation

- Terms of reference
- International recommendations
- Deflation
- Output indicators
- Way Forward
Terms of Reference of ISWGNA Task Force on FISIM

The Task Force addressed so far 3 clarification issues

- Risk management
- Liquidity transformation
- Consistency of FISIM in international trade

Implications for price and volume measures

- How will the clarification of above issues, including the choice of reference rate, affect price and volume measures of FISIM?
Paragraph 15.114
• Apply the base-year reference rate and bank interest rates to nominal measures of loans and deposits which are deflated by a general price index.

Paragraph 15.115
• ....volume indices may be derived by extrapolating the current values in the base period by suitable indicators
Deflation of financial stocks with a general price index

- This method is an application of the base-year reference rate and bank interest rates (base-year margin) (price component) of loans and deposits (by user sectors and industries) to deflated average stocks of loans and deposits (volume component).

- General price index
  - GDP deflator, Final demand deflator, CPI, appropriate deflators for specific banking activities, etc.

- In practice this methodology provides stable and predictable results
Using output indicators

- This method is an application of the base-year margins (price component) to weighted average of appropriate output indicators (volume component).

- Practical considerations to identify possible output indicators for loans and deposits.

- The indicators should be weighted accordingly to the cost compositions, separately for each user sector, distinguishing mainly between businesses consumers and non-market users.

- Ideally, quality adjustments should also be taken into account.
The possible output indicators that would represent the costs of origination, screening creditworthiness and payment processing of loans could be the number of:

- new consumer loans granted
- new credit cards issued
- new dwelling loans granted
- loans (other than new)
- repayments
- write-offs

Separate indicators are needed for short and long term loans as well as secured and unsecured loans.
Possible output indicators for deposits

- The possible output indicators that would represent the costs of opening, running and managing the accounts could be the number of:
  - deposits accounts,
  - transactions cleared (including internet & telephone banking transfers, cheque clearing, withdrawals, direct debits, debit card payment, electronic transfers etc),
  - write-offs or accounts closure.

- Separate indicators are needed for short-term deposits, e.g. current account and long-term deposits, e.g. saving accounts.
The Netherlands tested the use of the output indicators method and came to the conclusion that the method can be a very useful substitute of the stock deflator method.

However, more research remains to be done on the methodology in deriving appropriate set of output indicators for all types of loans and deposits.
Outcome of the first FISIM TF meeting

- There are strong arguments for using quantity based approaches to measuring volume FISIM

- Recognised that quantity approaches are data intensive and therefore, prefer direct price deflation.

- A general price index is an acceptable approach for deflating stocks.

- A sub-index of the CPI that explicitly excludes FISIM may be preferred by users such as, central banks to prevent monetary policy changes feeding directly through to changes in their inflation target.
Discussion points

- Views on deflation versus quantity measures

- Deflation method
  - Appropriate indices

- Quantity measures
  - Appropriate set of output indicators for all types of loans and deposits

- Way forward
Thank you